

October 2009 Analysis of Revenue Collections

Revenue Estimate

In October, the State issued a bond prospectus that included a discussion of FY10 revenues. In July, the Governor issued a revised revenue estimate of approximately \$857 million below the FY10 budget as passed. The prospectus issued in October indicated that the revenue decline is now expected to result in a \$1.26 billion shortfall from the FY10 budget.

The bond prospectus also gave a look at the thinking for FY2011. The Governor is projecting 3.9% growth in FY11 over the new revenue estimate for FY10 or -2.5% below FY09 actual revenues. In short, the state will fall \$1.3 billion from the budget as passed but will then recover around half of this in FY11.

Table 1: Revenue Estimates

	Dept of Revenue Tracked	All State General Funds (Incl. MFT)
FY09 Actual	\$15,625,304,936	\$16,766,661,805
FY2010		
FY10 Budget (HB119)	\$15,929,421,600	\$16,994,247,194
FY10 Revised Rev Estimate (Oct Bond Prospectus)	\$14,697,195,626	\$15,734,247,194
Difference from FY09 Actual	-\$928,109,310	-\$1,032,414,611
% Change from FY09 Actual	-5.9%	-6.2%
Difference from FY10 Budget - "Shortfall"		-\$1,260,000,000
FY2011		
FY11 Working Rev Estimate (Oct Bond Prospectus)	\$15,295,229,383	\$16,347,882,835
Difference from FY10 Revised Revenue Estimate		\$613,635,641
% Change from FY10 Revised Revenue Estimate		3.9%

The Table above shows the revenue estimates for both Department of Revenue tracked funds, which matches to the monthly press release from the Governor, and all state general funds, which matches to the actual revenue estimates reported in the bond prospectus and in the budget itself. These latter funds are reported in spreadsheets sent out by the Office of Treasury and Financial Services each month.

SBEO charts follow DOR tracked revenues since this is what is reported in the press.

October Revenues

In October, Department of Revenue tracked tax collections were down \$831.4 million or -15.1% year to date.

- Income taxes were down \$416.5 million or -14.8% (September was down \$305 million or -14.6%).
- Sales and Use Tax collections decreased by \$293.7 million or -15.6% (September was down \$204.9 million or -14.7%).
- Corporate Income Tax collections decreased \$48.6 million or -22.6% (September decreased \$20.1 million or -10.5%).

- Total Motor Fuel Tax collections declined \$49.3 million or -15.6% (September declined \$38.5 million or -16%). Motor Fuel excise taxes were up by 2.7% suggesting that people are buying more gallons of gas.

Revenue Trajectory

The state is currently collecting revenues at the same rate as it did in 2005, although the population has increased by 6%. *The state should have at least one more month of collections that look very bad compared to last year, after which revenues should start to even out in comparison to revenues from last year.*

If the state brings in exactly the same amount of revenue as last year in all the remaining months, the FY10 shortfall will be around \$1.1 billion.

Based on historical collections, the state needed to bring \$4.678 billion (or 31.82% of budget) through October to be on track to meet budget based on the Governor's new revenue estimate. Having brought in \$4.660 billion (or the equivalent of 31.17%) the state is currently \$17 million behind schedule. If the state was still operating on the revenue estimate in the budget as passed, the state would currently be \$408 million behind schedule.

This historical analysis assumes that the state will bring in substantially more in January through June (on average around 6% growth month over month) than it did last year. Historically these months have been strong as an overall percent of the total budget. In FY09, these were comparatively weaker months.

Reserves

Currently, the state has \$217 million in reserves that have not been committed in the FY10 budget. Excluding the midyear adjustment of \$167.7 million, this is the equivalent of about 1 day of state operations. In FY2009 the state had 19 days of operations in reserves and in FY2008 it was 31 days.

Other Issues

There are several other issues affecting this month's revenues that are important to consider.

- 1) Due to the floods, some businesses were able to delay remittance of sales and withholding taxes to the state. The Department of Revenue estimates that this has delayed around \$31 million in tax collections. This will also affect November tax remittances.
- 2) The Department has had a backlog in sales tax remittances to local governments of around \$176 million. These funds are reflected in the monthly reports as part of the sales tax remittance to local governments; however, the revenues were set aside in FY09 and do not actually count against the FY10 revenues. On the other hand, this is not the first year that the Department has had a backlog of sales tax remittances. Last year, there was a \$104 million backlog that was set aside out of FY08 revenues but showed up in the FY09 monthly revenue reports. There will likely be some backlog that will also be counted against the FY10 revenues. The net effect of these backlogs on FY10 revenues is hard to predict.